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THE ISSUES OF THE SECOND BANK OF THE UNITED STATES.

THE charter of the Second Bank of the United States limited the circulation of that corporation to 35 million dollars;[1] stipulated that all notes should be paid in specie on demand,[2] imposing a penalty of 12 per cent. per annum in case of all notes not so paid;[3] prohibited the issue of notes of a less denomination than five dollars;[4] and made these notes receivable in all payments to the United States.[5]

These provisions were evidently intended to render impossible a suspension of specie payments on the part of the bank; to hinder it from making excessive issues; to give credit to its notes; to restrict the issue of paper for small sums, and to establish a uniform circulating medium for the use of the government. The conditions which gave rise to these provisions are too well known to require repeating. It suffices to say that the government was compelled for its own protection against the state banks to erect a national institution; this was to be endowed with powers sufficient to aid in the restoration of specie payments, and to furnish a common medium of exchange, by the use of which the operations of the government and the business of individuals could be transacted.

A complete consideration of all the phases of the currency

[1] *Charter*, sec. 11, art. 8.
[2] Sec. 11, Art. 12.
[3] Sec. 17.
[4] Sec. 11, art. 17.
[5] Sec. 14.

thus created is, of course, not possible here. It will be necessary to limit the discussion to certain important sides of the subject. The method of treatment will be as follows: First, there will be given a slight sketch of the issues of the bank, in order to furnish a basis for a fuller discussion of certain questions; and, in the second place, these questions will be discussed at some length under these heads: (1) the effect of the issues upon the bank when freely put into circulation in the South and West in 1818 and in 1832, (2) the convertibility of the bank's issues, and (3) their elasticity.

A matter of importance in making any study of the bank's issues is to note that there were four periods in its history. The first is that comprising the presidency of William Jones; the second is that of the presidency of Langdon Cheves, and the third and fourth are comprised in the presidency of Nicholas Biddle. The third includes the years 1823–1826, and the fourth the remainder of President Biddle's administration down to 1836. These divisions are helpful because in each period a different and distinctive policy controlled the operations of the bank. Under Jones, free rein was given; under Cheves restriction was the rule; under Biddle the restrictions imposed by Cheves vanished, while the errors of Jones were avoided for the most part. In the first period of Biddle's management the restrictions were removed to as great an extent as possible, but it was not till 1827 that Biddle introduced a new plan of operations which thenceforth gave the distinctive character to the bank's business.

Resumption was the first object of the bank, and it was secured by arrangements with the government and with the state banks. The arrangement with the government consisted in having a resolution passed by Congress rejecting the notes of all banks which refused to redeem their issues in specie after February 20, 1817.[1] This provision was calculated to compel the state banks to begin the resumption of specie payments or lose the benefit of having their notes received by the government. The arrangement with the state banks comprised those of New

[1] *Annals of Congress*, XIV Congress, first session, p. 1919.

York, Philadelphia, Baltimore, and Richmond, and induced them to begin the payment of specie on the 20th of February, 1817, in return for certain favors extended to them by the Bank of the United States.[1]

Under these circumstances specie payments were resumed on the 20th of February. At least that was the supposition at the time, but it was soon discovered that the resumption had been very incomplete indeed. In general, it was only nominal, and in no sense real. This is proved by the fact that specie was at a premium during the whole time that resumption presumably existed,[2] and also by the fact that the Bank of the United States had no means of keeping up specie payments in its own case except through the importation of specie, which was brought into the country at a great loss, and immediately went out again.[3] The attempt to resume, then, was a failure. Undoubtedly this attempt was made too early. The currency was expanded to an astonishing degree, and there was too little specie in the country to make resumption actually possible. But there was a special cause for the failure which more nearly concerns us. The Bank of the United States was badly managed. Under these circumstances the country was overtaken by the panic of 1818–19, and all further thought of immediate resumption had to be surrendered. Indeed, the bank had all that it could do to take care of itself. The management had adopted at the beginning of the institution's existence the policy of expansion when the state of the currency demanded a contraction. This expansion was rendered more perilous by the excessive mismanagement of the bank, which allowed the southern and western offices to do a business altogether disproportionate to their legitimate business requirements. This again was helped along by the policy of redeeming all the bank's issues wherever presented. As the course of exchange was always against the West, and frequently

[1] 4 *State Papers on Finance*, p. 769.

[2] RAGUET, *On Banking*, p. 303. See also Crawford's Report of February 12, 1820. —3 *Finance*, p. 496.

[3] For a table of importations, see 3 *Finance*, p. 338.

against the South, this permitted the western and southern offices to issue their notes without any limitation whatever. The consequence was that the capital of the bank was drawn away to the South and West. To put an end to this serious condition of affairs the bank published orders in August 1818 prohibiting the offices from redeeming notes not issued by the particular branch to which they were presented. By this order the usefulness and currency of the bank's issues were seriously impaired. Once more there was no common medium of exchange. The policy of refusing to receive these notes was, however, forced upon the bank, for it was upon the verge of bankruptcy.[1] In this way the first attempt to give the country a better currency through the agency of the Bank of the United States ended in failure.

The policy of refusing to receive the notes except where they were made payable was supplemented by an attempt to restrict the issues. A worse moment at which to contract could not have been chosen, since the country was in the throes of the panic, and needed above all things credit. Credit, however, was steadily refused, and the issues of the bank diminished rapidly, as is evident by a glance at the chart herewith given. This shows a reduction of over a million from April to July 1818, and of three million dollars by January 1819. In this month Wm. Jones, president of the bank, was forced to retire and in March Langdon Cheves came into control.

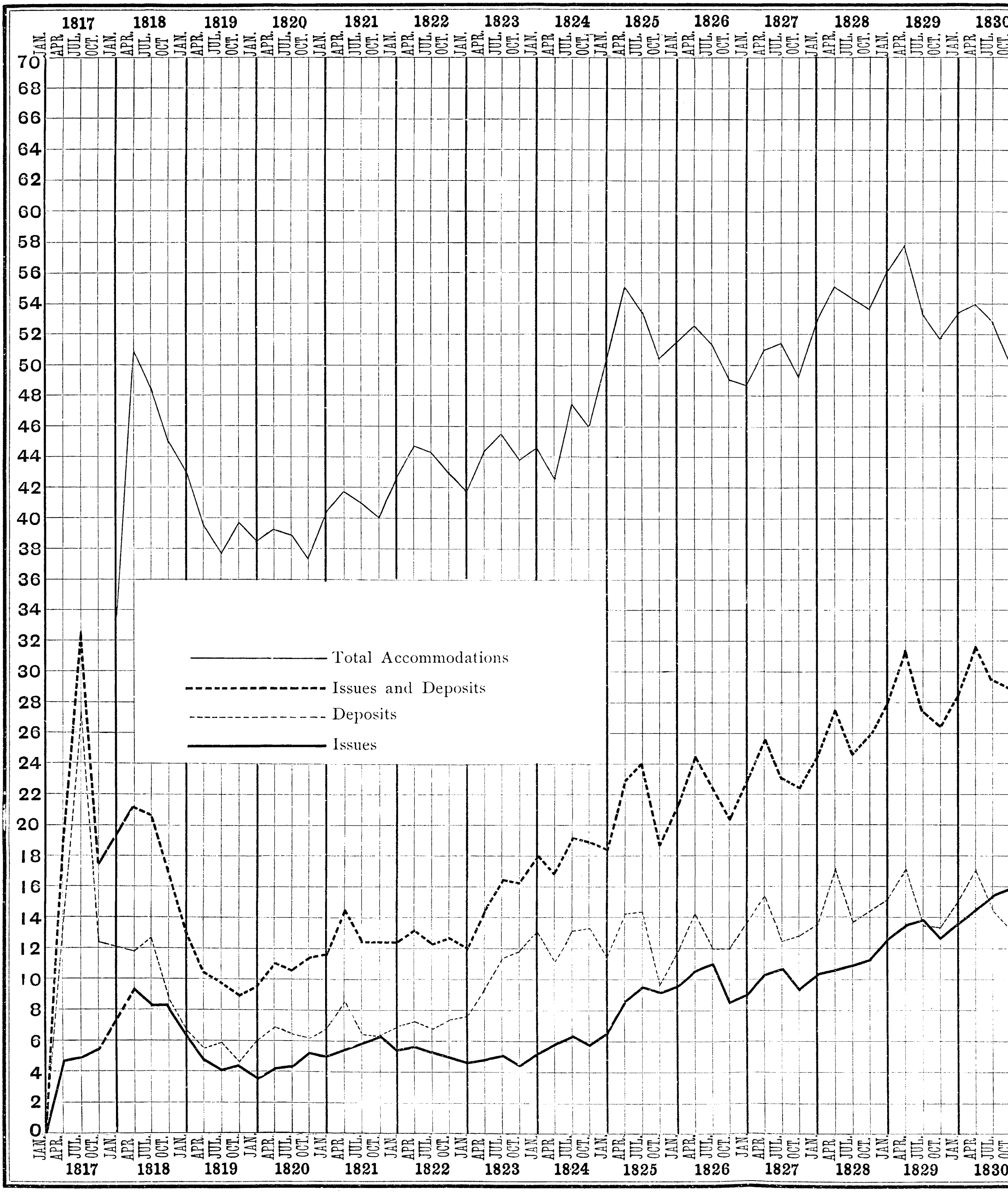
Cheves' policy led to a continuation of the contraction. Under his leadership the five-dollar bills of the bank were once more received at all the offices at par,[2] but the western offices were not permitted to issue any notes,[3] and the circulation went lower and lower. In April 1819 its volume was less than half that of April 1818, and by December of 1819 it was only a little over one-third what it had been in April 1818. During Cheves' entire administration its volume was carefully restricted,[4]

[1] Letter of Cheves to Secretary Crawford, April 6, 1819.—4 *Finance*, p. 873.

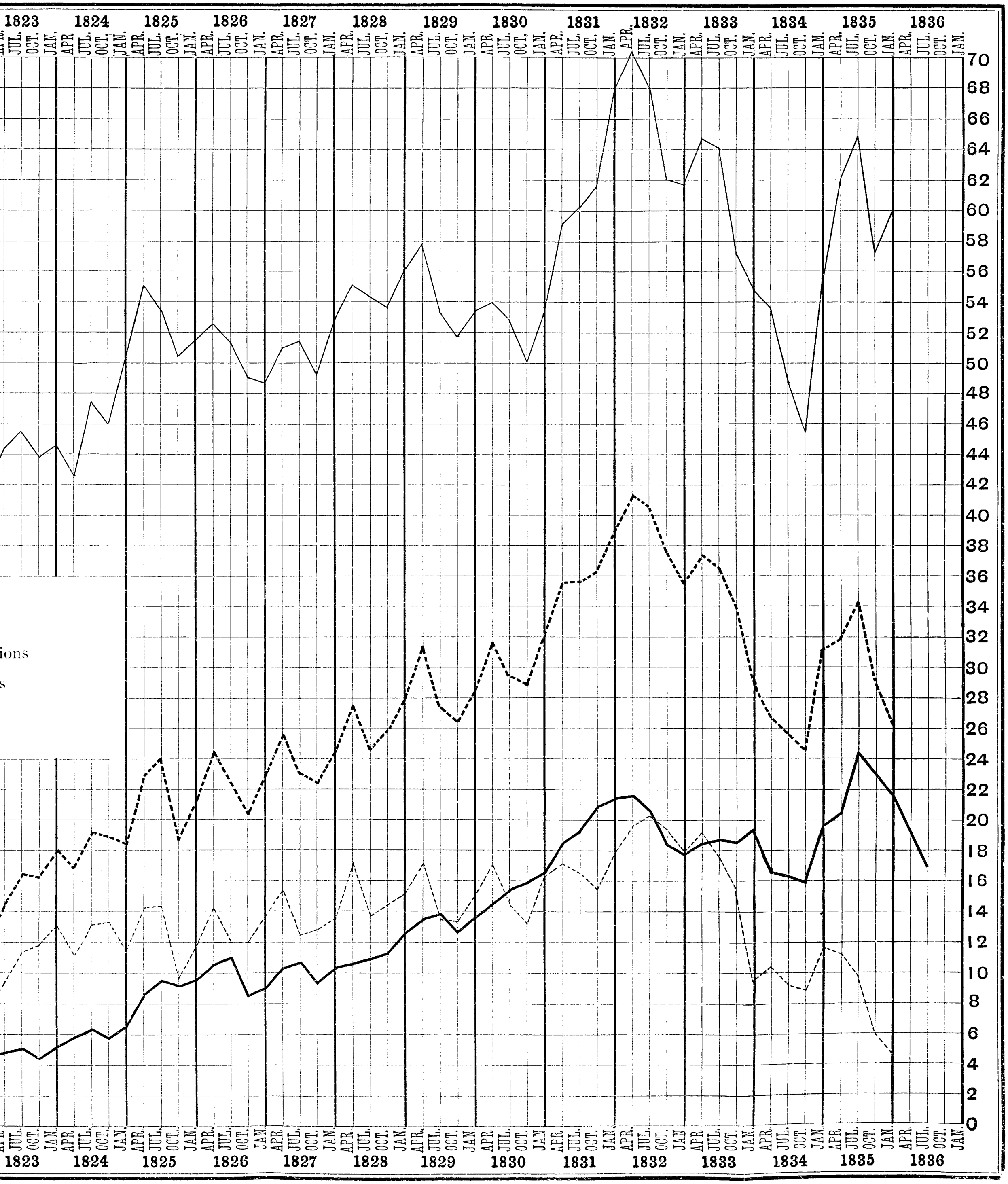
[2] Report of Bank Committee, October 5, 1818, sec. 15.—4 *Finance*, p. 908.

[3] *Ibid.*, sec. 14.

[4] Thus from 1819 to 1823 the average circulation was 4.8 millions, 4.4 millions, 5.6 millions, and 5.3 millions as against 8.4 millions in 1818. See Appendix, Table I.



Total Accommodations
Issues and Deposits
Deposits
Issues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but in so far as there was a currency it was sound and uniform, meeting all reasonable requirements in these respects.

In January 1823 Cheves retired and Nicholas Biddle became president of the bank. Biddle represented an entirely different policy from that pursued by Cheves. He wished to increase the business of the bank along all lines, and he was particularly anxious that the circulation should be less restricted. He was, however, well aware that, owing to the course of trade and exchange, there was a grave danger in permitting the offices of the South and West to issue their notes freely.[1] On the other hand, these sections demanded greater accommodations and especially the benefits of a uniform circulating medium which they had not enjoyed since the restrictions placed upon the issues of the bank. The supply of this demand immediately became Biddle's anxious care, and to a great extent justly so, since the bank's profit and the country's need were equally involved in the restriction of the multifarious issues of the state banks. From this time the interest in the currency of the Bank of the United States centers around the manner in which the problem was solved. The difficulty was twofold: The perils incurred by the course of exchange, namely, the danger of having the capital of the institution shifted to the West and South, had to be overcome; and in the second place, some means had to be found to supply the corporation with notes. It was impossible to furnish notes sufficient for the supply of the West and South under the provision in the charter that all notes must be signed by the president and cashier of the parent office.[2] Repeated attempts had been made to persuade Congress to amend this provision, but all to no purpose.[3] Under this check to the issues it was impossible materially to expand the currency, and we find that it reached a lower average in 1823 than in any other year.[4] In 1826 the bank turned once more to

[1] *House Reports*, No. 460, p. 321, XXII Congress, first session.

[2] *Ibid.*, p. 53.

[3] *Ibid.*, p. 48, where a list of the applications is given.

[4] In 1824 the average was slightly higher, and in 1825 it was higher than ever before, results brought about by the reissue of some old notes which had been retired.

the government with the reasonable request that special officers be appointed to sign the notes of the bank. Failing to secure this privilege, Biddle brought forward a plan which he had matured. To this there were two sides. On the one side it obviated the dangers arising from the course of exchange, and on the other it evaded the provision in respect to the signing of the notes. The first of these ends was attained by dealing extensively in bills of domestic exchange; the second by the invention of what were known as "branch drafts." By the buying of domestic bills when notes were issued, a fund was provided out of which the notes were paid when they were presented at the Atlantic offices. The bills purchased were drawn on the sale of the crop, and were made payable in the East and North. In this way the danger of having the bank's capital shifted to the West and South was avoided.[1]

This was the principal part of Biddle's plan. The subsidiary, but supplementary portion, consisted in supplying a sufficient amount of notes to carry out the plan. This was done by having the branches draw checks or drafts upon the mother office for sums of five, ten, and twenty dollars. These drafts being drawn by the principal officers of the branches on some other officer, were indorsed by the latter as payable to bearer. They then circulated as a currency, just as any other notes of the bank did.[2] In this way the charter provision requiring the signatures of the president and cashier at Philadelphia was evaded.

Under this plan the note circulation of the bank was materially increased. The expansion in issues is very easily seen on the chart. In 1827 the increase is slight, but in 1828 the volume of the currency was a million and a half dollars larger than in 1826, in 1829 the increase has become 3.5 millions, and in 1831 it is 9.5 millions, or just double the average of 1826.[3]

This supply was, however, soon exhausted.—*House Reports*, No. 460, p. 54, XXII Congress, first session.

[1] See for this plan *Triennial Report of the Bank* in 1831, 41 *Niles*, pp. 114–115; also p. 321, *House Reports*, No. 460, XXII Congress, first session.

[2] See Appendix, Note on Branch Drafts.

[3] See Appendix, Table III.

By thus doubling the circulation in five years the currency of the Bank of the United States at last became truly national and fulfilled the purposes for which it was intended when the bank was established. The notes were in excellent repute, and circulated from Canada to Mexico; the issues of the state banks were checked and restrained; the business of the country was carried on with more facility than at any other time between 1811 and 1860, and the monetary affairs of the government were transacted with great ease and promptness.

Thus far no attention has been paid to anything but the issues of the bank. That, in considering only these, all the elements of the circulation have not been touched upon goes without saying. It is necessary to add to the issues the bank drafts in circulation, the deposits, even bills of exchange in so far as these were transferred by indorsement. All these elements were of importance, but in the case of bills of exchange and bank drafts it is impossible to determine the amounts, and therefore they cannot be considered. True, Gallatin is authority for the statement that the drafts in 1829 were equal to a million dollars in the circulation.[1] But while this gives information which is of value for 1829, it does not help in the least towards determining the amount of that species of currency for other years. It is only certain that it was a varying sum, that in the early years of the bank it amounted to very little, while after 1829 it continually increased and was of considerable importance. For instance, while in 1829 the amount was $24,384,000, in the fiscal year from July 1, 1830 to June 30, 1831, it was $33,641,000,[2] and in 1832 $45,157,000.[3] Hence in 1830 and in 1831 bank drafts must have been a much larger part of the circulation than they were in 1829. Information on the subject being, however, so meager, it is impossible really to enter into a discussion of the

[1] "The annual total amount of these drafts is about 24 million dollars and they are on an average paid within fifteen days after being issued. The amount always in circulation may, therefore, be estimated at one million dollars."—GALLATIN'S *Works*, vol. iii. p. 296.

[2] *Executive Document No. 147*, pp. 4–50, XXII Congress, first session.

[3] *Senate Document No. 17*, p. 180, XXIII Congress, second session.

matter. It is only necessary to point out that in comparison with their use today drafts were not extensively employed at this period.

In respect to the deposits, which constituted by all odds the most important of these elements in the bank's circulation, they will be considered to some extent, though only briefly, the principal discussion being in regard to the issues. In the chart given the deposits are included as the second line, and it will be noted that they are almost or quite as large a part of the circulation as the note issues. But the really striking matter in regard to them to one familiar with their importance today is that they are so insignificant. It would be difficult today to find many banks whose deposits do not greatly exceed their note issues. From 1817 to 1836 the one great bank of the country held deposits only about equal to its note circulation, and this, too, under the very favorable circumstance that by far the larger part of them consisted of government deposits.[1] Nevertheless, while it is true that deposits were an insignificant enough part of the circulation, they already played a considerable rôle as a circulating medium. Raguet, writing in 1840, declares that in the large cities deposits as a currency device far exceed the note issues.[2] It would not be just, therefore, to treat of the currency of the Bank of the United States without bestowing some attention upon the deposits. In addition to the noteworthy fact that their use was so limited in comparison with their use today, there is another point deserving attention. It is that the deposits of the bank were far more convertible than the note issues. A demand for specie by a business man having a deposit at the bank was much more probable than such a demand from a note holder. Moreover, the government of the

[1] For tables of deposits see Appendix, Tables II and IV.

[2] "So true is it that deposits constitute currency as much as bank notes that in all our commercial cities no other currency is used at all in extensive transactions. . . . .

"Deposits, in fact, in large commercial cities constitute the largest portion of the currency. In the city of New York on the first of June, 1837 . . . . the amount of notes in circulation outstanding for all the city banks was $5,283,950, whilst the amount of deposits, public and private, was $15,843,171."—RAGUET, *On Banking*, pp. 185, 186.

United States was continually having its deposits redeemed in specie in order to make payments abroad on account of the public debt. In this respect, then, deposits were preferable to notes.

No sketch of the currency would be complete without touching upon the amount of the issues. Attention has already been called to the considerable variations of these in accordance with the policies adopted by the successive presidents of the bank. Thus under Jones there were no restrictions upon the issues, while under Cheves restriction was the rule. As a result of this, their average amount under the administration of Cheves was about half that during Jones' control of the bank. The deposits were a larger element of the circulation than the note issues. Yet even in Jones' time the volume of the issues was small, averaging only from eight to nine millions. This, indeed, is noteworthy, and a similar condition remained for the greater part of the existence of the bank. In fact, if the issues are compared with the bank's capital, the sum to which they might have attained under the legislative restriction imposed by the charter, they were never excessive. The charter permitted a circulation of notes to the extent of 35 million dollars. It will be observed that it never reached anything like that figure. The highest sum ever out was 25 million dollars, and this only for one month. The highest annual average was $22,340,000, less than two-thirds of the capital stock. Not until 1831, when three-fourths of the bank's existence had passed, did the issues average over 15 million dollars, or less than one-half the amount of the capital.[1] If one looks then to the legislative restriction, and to this alone, it must be admitted that the note issues were never excessive, even though the incitements to note issues were so much more pronounced at that time than they are now. But, taking the issues after 1830, it is only if we look at nothing but the legislative restriction that they can be said to be limited In very truth they were more than once excessive, if one judges by the actual legitimate demand of the country for the bank's

[1] See Appendix, Tables I and III.

paper. One has here, indeed, only an illustration of the truth that there is no definite proportion between a bank's capital and its note circulation. The attempt to fix a proportion between capital and note issues is absurd. It has often been pointed out that the issues must depend for their security not so much upon the capital as upon the assets of a bank; and that the circulation must in the nature of things be measured rather by the volume of business done than by the size of the capital stock. Especially is it absurd today to impose legislative restrictions of this character, for today deposits are the principal circulation of almost all banks,[1] and if there is any safety in limitation in proportion with the capital stock, why not limit them in this manner? No one, however, would dream of placing a restriction upon the deposits in such a manner that they should never exceed a fixed proportion of the capital stock. Yet there is before the country today the well-known Baltimore plan, which proposes to allow note issues to the amount of half the sum of the "paid-up, unimpaired" capital stock of a bank, placing a tax of one-half of 1 per cent. per annum upon these issues. In case further demands are made for banknotes, further emissions are to be permitted to the extent of 25 per cent. of the bank's "paid-up, unimpaired" capital, at an increased rate of taxation. Even if this plan in itself was not grounded on a false assumption, there is one result certain to follow its adoption that ought to condemn it. Precisely those places which need an increased

[1] Selecting at random a number of towns and cities of very different populations and locality we have the following statistics in regard to capital, deposits, and note issues from the last report of the comptroller of the currency:

National banks of	Capital	Issues	Deposits
Tupelo, Miss	$50,000	$11,250	$53,161
Selma, Ala	400,000	365,250	773,873
Williamsport, Pa	700,000	200,980	1,518,105
Springfield, Ill	1,050,000	246,570	2,148,232
Macomb, Ill	100,000	72,000	218,354
Batavia, O	80,000	72,000	106,295
Deadwood, Dak	600,000	33,750	1,033,067
Vicksburg, Miss	200,000	55,450	516,994

circulation, or at least are supposed to need it, would have to bear the burden of this heavier tax. One has only to revert to the figures at the bottom of page 430 to see that banks in cities of any considerable size do not in the ordinary course of business issue notes even to the extent of half the sum of their capital stock, while banks in small towns in the ordinary course of business issue their paper to an amount in excess of half their capital. Thus the banks in the small towns of Ohio, Illinois, and Alabama have out a note circulation equal to from 72 to 90 per cent. of their capital, while the banks of the larger cities have a circulation of from 23 to 39 per cent. of their capital. The adoption of the Baltimore plan would not materially affect the issues of the banks in cities; it would lay an additional burden upon the issues of banks in country towns.

The distribution of the circulation is of interest as showing what parts of the Union were chiefly supplied by the bank with a currency. The figures, of course, do not show actually what amount of the bank's notes were circulating in the regions considered, but only what amounts had been issued by the branches in these sections. The information in respect to the distribution is not as complete as desirable, but there is sufficient to lead to some very certain conclusions.[1]

In the first place the New England states were not supplied with the bulk of their currency by the Bank of the United States. In September 1818 the amount of the bank's notes issued in New England was a little less than one-thirteenth of the entire note circulation. It was small relatively to the whole amount issued, and it was small considered in itself. The sum was $518,415. One year later it was much less, but relatively to the entire circulation it was a little in excess of one-ninth of the whole. In January 1823 the proportion was about one-eleventh, and in December of this year it was one-tenth. The issues in New England had not increased to any appreciable extent, either relatively or absolutely, since 1818. They were less in December 1823 than in September 1818. By September

[1] See table of figures for the circulation of the bank at various periods on next page.

1830 the total had materially increased, but not to anything like the extent that the entire note circulation had. At that time it amounted to only one-twentieth of the sum of the bank's issues. By January 1832 the New England issues were about what they had been in 1830, and were only one-twenty-ninth part of the whole. This condition of affairs was not materially altered in April 1832.

It is evident, therefore, that New England was largely outside the sphere of the bank's circulation. It never was a favorite field for the operations of the institution, and it grew less so as time passed. Undoubtedly this was largely due to the excellent system of state banks in operation throughout New England. There was little need and less profit for a national bank in these states, and therefore the bank paid greater attention to other and more lucrative fields of business.

In the Middle States the issues were more extensive.

DISTRIBUTION OF THE BANK'S CIRCULATION AT VARIOUS PERIODS.

	Sept. 30, 1818	Sept. 27, 1819	Jan. 2, 1823	Dec., 1823	Sept., 1830	Jan. 1, 1832	April 4, 1832
New England states	$ 518,415	$ 368,336	$ 393,257	$ 401,077	$ 737,897	$ 741,587	$ 900,867
Middle states	969,780	1,082,869	868,060	1,085,205	3,110,740	5,525,463	5,478,378
Southern states	3,960,550	1,179,132	2,281,765	1,728,810	4,250,285	4,950,265	5,311,370
Southwestern states	670,125	174,760	744,755	849,320	3,564,145	4,586,145	5,637,005
Western states	817,680	249,528	45,820	16,785[1]	3,684,590	5,445,030	5,130,990
New England and Middle states	1,488,195	1,451,205	1,261,317	1,486,282	3,848,637	6,267,050	6,379,245
Southern, Southwestern and Western states	5,448,355	1,603,420	3,072,340	3,444,235	11,499,020	14,981,440	16,079,365

The authorities for these figures are as follows: 4 *Finance*, 968; 3 *Finance*, 511; *Senate Document No. 17*, p. 193, XXIII Congress, second session; *House Reports*, No. 460, p. 535, XXII Congress, first session; GALLATIN'S *Writings*, vol. iii. p. 364. The figures represent net circulation, which had to be calculated in some instances.

[1] In this month the circulation of the defunct office at Chillicothe is given as $849,320. This is so evidently wrong that I have taken the liberty of omitting it. The figures are precisely the same as those given for the New Orleans office.

Yet, even here they were not so large as might naturally be expected. In September 1818 not one dollar in seven was issued in this part of the Union. A year later the proportion was more favorable, being about one in three. This result was due to the contraction of 1818–9 which materially limited the southern and western issues. After this time the offices in the Middle States never issued so large a proportion of the note circulation. In 1823 it was from one-fourth to one-fifth of the whole. In 1830 it was still the same, and in 1832 it had not increased to any marked degree. Considered in themselves the sums show an increase, of course. From about a million in the early years, they increased by 1830 to three times, and by 1832 to five times that sum. On the whole, however, the particular field of the bank's issues was not here. Considering how extended commercial operations were in both the Middle and New England states the amount of the issues in these sections was surprisingly small.

The truth is that the legitimate sphere of the bank's operation was always considered to be rather in the South and West than in the East and North, and the figures show that this was the case in respect to its issues. In September 1818 over half of them were made in the South, meaning by "the South" the branches of the bank located in the thirteen original states south of Mason and Dixon's line. A year later, after the contraction of 1818–9, the proportion here was a little less than one-third of the whole, and the total, considered absolutely, had fallen off in a remarkable manner, showing that the issues in 1818 had been in all probability redundant. In January 1823 they were again over one-half of the total issues, but did not reach nearly so high a figure as in 1818. In 1830 the proportion exceeded one-fourth, but the absolute amount of the issues was greater than ever before. There is a further large increase in 1832, but the proportion remained about the same.

These facts show that the South was in the beginning the principal field of the bank's operations, and that it remained until the end a very important one. The reason for its smaller

relative importance at a later date is to be found in the great extension of the bank's dealings in the Southwest and West. As regards these sections we have a slightly different course of affairs. The Southwest was represented in the early years of the institution by the great office at New Orleans. This branch, in the amount of its business, easily ranked third. Its issues were very extended and usually exceeded the sum of all those made in New England. But it was not until after 1827 that the Southwest became an especially important territory for the bank's issues. In September 1830 the total of the note issues was only a little over a half million less than that of the southern offices. In 1832 the same continued to be the case, the offices of New Orleans, Mobile, and Natchez issuing a full fourth of all the notes emitted.

In the West, strictly speaking, at the Kentucky, Tennessee, and Ohio branches, the issues followed about the same course as in the Southwest. In September 1818 they aggregated about one-eighth of the whole, being almost equal to the sum of the issues in the Middle States. In proportion to the population and commercial interests of these new states this circulation was enormous. It was in respect to the West, therefore, that the most energetic efforts were made to restrict the circulation. In September 1819 the total was not one-third that of the year previous, and in proportion to the entire note circulation was less than one-fifteenth of the whole. By January 1823 the effect of Cheves' policy of almost total restriction is clearly perceived. At that date the active western offices issued only $45,820, and in December of the same year only $16,785—insignificant sums which hardly permit one to speak of western issues. Again the change takes place after 1827, after the invention of branch drafts and the new plan of extensive operations in exchange. The change is indeed a remarkable one. In September 1830 the issues are over 3.6 million dollars, an amount in excess of that issued in the Middle States, and almost equal to the sum of those of the Middle and New England states taken together. The proportion is a little less than one-fourth of the whole, and

this proportion is retained in 1832; which year shows a great increase in the issues of the West, the amount being over five million dollars.

From this analysis it is seen that the South was for one-half the bank's existence the principal field for the note issues. After 1827 the West and Southwest rise to about equal importance. Taking Southwest and West together their total issues equal about one-half of the whole. Taking South, Southwest, and West together, in comparison with the New England and the Middle states, we find that in September 1818 these sections had almost four times as great a note circulation; in September 1819, it was a little over that of the East and North; in 1823 it was 2.4 times greater; in September 1830 it was three times greater, and had increased from 3.4 million dollars in 1823 to 11.4 million dollars. In 1832 the proportion was not so great, though the increase since 1830 was larger than during any other two years of the bank's history.

There were, of course, many excellent reasons for this state of affairs, but the principal reasons can be given in one sentence: Banking operations in these regions were more profitable than elsewhere and the demand for note issues was greater. But at the bottom of these facts lay a serious danger to the bank. It will not escape notice that at the periods of great expansion, which were also periods of embarrassment to the Bank of the United States, the expansion of the currency in these sections was especially noteworthy. In the first years of the bank this was particularly true of the southern and western issues, while later it is more applicable to those of the West and Southwest. The two periods of greatest expansion are marked by the years 1818 and 1832. That of 1818 was due to Jones' policy of permitting the offices to emit their notes without any adequate restrictions. The Bank of the United States, as already noted, was in the most critical condition in 1819. Now, there is a causal connection between the great expansion of 1818 and the financial distress of 1819, and this point merits the closest attention.

The course of events was briefly as follows: All the note issues of the bank were received as equal to specie at every one of its offices. At the same time the course of exchange was always against the West and usually against the South.[1] Under these circumstances the notes of the branches ran in a steady stream to the North and East.[2] The western and southern offices being thus relieved of the necessity of redeeming their notes, enjoyed practical immunity from every check to their circulation, and emitted their notes without any limit except that of an insatiable demand. But the paper had to be redeemed somewhere and it was redeemed at the branches in the North and East. The results are instructive. The business of the eastern offices was almost destroyed. On the 19th of March, 1818, the Boston office ceased receiving southern branch notes. It had made no discounts worth mentioning for many weeks, its whole time and capital being employed in the redemption of southern branch paper.[3] The office at New York suffered in the same manner. Both branches were depleted of their specie though large quantities of the precious metals were sent to them.[4] At times their capital was "less than nothing."[5] The general condition of the northern branches corresponded to that of the offices at Boston and New York.[6] The entire capital of the institution was being rapidly shifted to the South and West. Out of the total capital stock of 35 million dollars, the office at Baltimore was credited with holding $5,646,000 in May 1819; Rich-

[1] "Memorial of the Bank Directors," January 12, 1821, 3 *State Papers on Finance*, p. 589.

[2] "When the exchanges are unfavorable to the South and West, the notes of the southern and western offices all pass to the North as a substitute for exchange."—*Ibid.*, *loc. cit.*

[3] Letter of President Gray to Jones, March 19, 1818, 3 *State Papers on Finance*, p. 324.

[4] *Ibid.*, p. 331. Amount furnished office at New York from May 1817 to December 1818, $6,293,392.01; to office at Boston from January 1817 to December 1819, $1,622,-800.09.

[5] "Memorial of the Bank Directors," January 12, 1821; *ibid.*, p. 589.

[6] "The result was that the bank and the great northern offices were drained of their capital."— CHEVES' "Exposition," October 1822, 23 *Niles*, p. 90.

mond had $1,760,000; Savannah $1,420,000, and Charleston $1,935,000, while the offices in the West were in an equally prosperous condition. The branches in these small cities controlled a capital enormously out of proportion to their legitimate needs. Lexington had $1,502,000; Louisville $1,129,000, and Cincinnati $2,400,000, while New York had a capital of $245,000, and Boston had none whatever.[1] Under these circumstances the bank had to conclude its policy of receiving all the notes of all the offices indiscriminately.[2] Even this measure was not completely effective. The issues of the southern and western offices had to be materially restricted before actual relief was afforded.[3]

The real difficulty was not because the notes were redeemable wherever the bank had a branch, but because the bank issued too much paper in the South and West. In the latter section especially the demand was not for a circulating medium, but for capital. If further proof of this conclusion is needed it can be found in the fact that the western loans were practically perma-

[1] 3 *State Papers on Finance*, p. 593:

CAPITAL OF THE BANK SHOWING THE EFFECT OF THE NOTE ISSUES OF SOUTH AND WEST, MAY 28, 1819.

Portsmouth	$ 117,678.70	Charleston	$ 1,935,042.35
Providence	335,208.54	Savannah	1,420,543.45
Middletown	255,985.11	New Orleans	1,664,596.47
New York	245,287.81	Lexington	1,502,388.44
Baltimore	5,646,325.28	Cincinnati	2,400,987.30
Washington	555,737.97	Louisville	1,129,009.00
Richmond	1,760,562.88	Chillicothe	649,858.83
Norfolk	861,764.16	Pittsburgh	769,031.36
Fayetteville	677,963.81	Philadelphia	13,418.742.96
		Deduct due to Boston	372,825.79
			13,045,917.17
Total			$34,973,828.63

The capital given for Philadelphia was merely nominal.

[2] 3 *State Papers on Finance*, p. 326, August 1818.

[3] "The great cause which has given security to the bank, and without which it certainly could not have sustained itself, has been the restraint put upon the offices, with which the exchanges were adverse, in the issue of their notes."—Cheves to Crawford, September 15, 1819; 4 *State Papers on Finance*, p. 903.

nent.[1] When the demand for payment came it could not be met. Individual debtors got an extension of their loans by selling a "racehorse" bill, or by paying in the notes of the local banks.[2] The local banks, when called upon to settle, could not possibly furnish the means,[3] and the bank had to take immense quantities of unsalable real estate in payment.[4]

It is plain, then, that the demand in the West was not for a circulating medium, but for capital. It was a demand for means to make what, in the nature of the case, would be permanent investments, for means to assist in developing a new country.

A similar state of affairs existed in 1832. Under Biddle's plan, which was put in operation in 1827, the business of the West and Southwest had been enormously increased. Naturally there was an immense stimulus to the note issues, as is evident from the figures for the years 1828 to 1836.[5] Had Biddle's plan, however, been carefully followed no embarrassment would have been likely, for only real business paper would have been bought. The source of the difficulty lay in the officers and directors of these branches. They were not men to refuse accommodations to local enterprises in accordance with the restrictions which Biddle sought to impose. Once again loans

[1] "The western offices curtailed their discounted paper, but they purchased what were called racehorse bills, to a greater amount than their curtailments. The debt due in Kentucky and Ohio, instead of being reduced was, within this period, actually increased upwards of half a million dollars."—(CHEVES' "Exposition," October, 1822, 23 *Niles' Register*, p. 90.) What this means is that when the demand for payment came the bank's debtors got an extension of the credit they had borrowed by transforming their discounted notes into bills of domestic exchange drawn on other branches, which were then redrawn and sent to some other office, but not paid.

[2] "The curtailments, in many instances, resulted merely in a change of debts bearing interest for debts due by local banks, or the notes of local banks, on neither of which was interest received."—*Ibid.*

[3] "The state banks are required to pay, either in specie, United States notes or eastern funds. Neither of these can be had."—Committee of Cincinnati banks to Bank of United States, August 20, 1818, 4 *State Papers on Finance*, p. 860.

[4] In 1822 it held real estate at Cincinnati to the amount of $514,000; in 1825, $1,094,000; in 1827, $1,379,000. See monthly reports for these years.

On the 1st of April, 1819, the debt due in Kentucky and Ohio was $6,351,000, (CHEVES' "Exposition," 23 *Niles*, p. 94.)

[5] See Appendix, Table I.

which were virtually permanent were made; once again the immense mass of notes running to the eastern offices embarrassed the bank, which could only with great difficulty find the means with which to redeem these notes;[1] once again the West was called upon to settle, and once again immediate settlement was found impossible.

From Nashville the cashier of the branch writes that all bills offered for collection are renewed.[2] In other words, the old "racehorse" bill system is put in operation once more. A later letter reveals the fact that bills sent to New Orleans from Nashville had been renewed there and returned to Nashville, where they were once more renewed and sent back to New Orleans.[3] The president of the Nashville branch admits that too many bills are bought, "amounting," he says, "to more than the present crop of cotton and tobacco will pay."[4] The amount of redrafts for the summer and fall footed up over a million.[5]

The same state of affairs existed at Louisville. The cashier there admitted in a letter to the office at Philadelphia that the bank's difficulties were caused by a too great extension of its credit.[6] He stated that bills sent to Louisville for collection were not collected, but renewed. It would be impossible for the branch to reduce its loans for a time.[7]

So, too, the cashier at Cincinnati declares that it seems hopeless to attempt to reduce discounts for the present. He remarks that "as fast as good bills of exchange are offered to be applied to discounted notes they are purchased."[8] This, it is worth while remarking, was the operation by which discounts were transformed into "racehorse" bills.

[1] Letter of the cashier of the Bank of the United States to the cashier of the Cincinnati branch, February 4, 1832; *House Reports*, No. 460, p. 526, XXII Congress, first session.

[2] "In this way have all the bills been paid which were remitted to us for collection from the Orleans and other western offices since the month of June last."—Letter of October 21, 1832, *House Reports*, No. 121, p. 150, XXII Congress, second session.

[3] *Ibid.*, p. 47. Letter of November 24, 1832.

[4] *Ibid.*

[5] *Ibid.*, p. 157. Letter of November 26, 1832.

[6] *Ibid.*, Nov. 18, 1832, p. 145.

[7] *Ibid.*

[8] *Ibid.*, p. 148.

And yet, while this was the situation, while the West could not discharge its debts, and while the circulation there was far in excess of any sum it had ever before attained, the cry was still for more currency. The cashier at Nashville declares that "the scarcity of money" in Alabama and Tennessee is "unexampled," and he begs that, if possible, the office be allowed to issue its notes with more freedom, since "no portion of the Union contains a more suffering population, for lack of circulating medium, than does the portion of which this office is the focus."[1] Yet in April the circulation credited to the Nashville office was $1,609,000, a note circulation greater than that of any other office except those of Philadelphia and New Orleans. Nor was the Nashville office alone in demanding greater accommodations. The cashier at Cincinnati asserts that the "demand for money" is "enormous."[2] A gentleman writing from the same city in August declares: "The distress for money here at present is greater than can be well imagined."[3] Yet in April the circulation of Cincinnati branch paper was in excess of 1.1 million dollars. Had the question been put to the complainants: "What has become of this enormous circulation?" they would have promptly responded that it had passed to the East.

Yes, it had passed to the East, and that is the significant fact. It is true that the Bank of the United States was at this time attempting a contraction in the West, and that therefore there was reason for these loud complaints, but if the circulation fulfilled the real duties of a currency there would have been no such demand for "a circulating medium." At this very moment the issues of the western offices were far in excess of any possible legitimate demand for a currency. In these scantily populated regions the issues were almost as extended as in the populous Middle states. It was not a currency which was required; it was capital. We have almost the same state of affairs as in 1819. The bank is embarrassed; it is compelled to pay the branch

[1] *House Reports*, No. 121, pp. 150–151. Letter of October 21, 1832; XXII Congress, second session.

[2] Letter of November 21, 1832. *Ibid.*, p. 149.

[3] 42 *Niles' Register*, p. 436, quoting New York *Courier and Express*.

notes before it can secure the means which were supposed to be furnished by the collection of the bills of domestic exchange; the West is called upon to settle for these bills, but cannot; its issues are excessive, and in the very midst of excessive issues there is a cry that the West is totally without a circulating medium; and there are ceaseless demands for more currency, for more paper.

Such demands could not be satisfied then, and they cannot be satisfied now. For they exist now and are quite as violent as they were then. It is indeed because the same demands exist today that the experience of the Bank of the United States is valuable. There is a constant cry from the South and West for "more money," but what their circumstances really demand is more capital; the means to develop a new country and new industries. If the South and West were supplied with more currency it could not remain with them. We should have the experience of the old bank repeated. The issues made in the South and West would inevitably leave those localities in a very short time and pass to the centers of trade where there is a real demand for the use of such credit devices. Again the South and West would be unable to discharge their obligations incurred in the granting of these accommodations, and once again those who made the issues would meet with embarrassment and loss. This is the lesson which the experience of the Bank of the United States teaches, and it is well worthy of being pondered by those who believe that the solution of our currency problems lies in increasing the supply of the paper issues in the South and West.

Two of the most important questions about any paper currency are these: Is it truly convertible? Is it elastic? In discussing the circulation of the Bank of the United States answers must be given to these questions. The provisions of the charter show that the paper issues of the bank were legally redeemable in specie on demand. This is convertibility, but there are many degrees of convertibility. The paper may be redeemable at a distant point; or the business habits of the community may be such as to embar-

rass individuals who wish to convert paper into specie; or means may be used by a bank which will hinder most men from any attempt to get specie for the paper which they hold. In any of these cases, convertibility is only partial, and in any of them depreciation is likely to result. We must, therefore, examine the conditions under which the paper of the Bank of the United States was redeemable with these considerations in mind. The history of the institution will furnish conclusive evidence to determine the nature of the issues on all the points specified.

The issues of the bank were at their best in the first year of its existence. As the bank could not suspend specie payments and as its notes were receivable in all payments due the government, the credit of these notes was excellent from the beginning. A third provision made convertibility complete. Each office of the bank received the notes of all the other offices at par. This was a most praiseworthy provision, and the results were excellent. As today everyone accepts a national bank note without caring to ascertain where it was issued, because such a note is receivable by all national banks at its face value, so at that time everyone willingly accepted a note of the Bank of the United States because wherever there was a branch of the bank the note would be redeemed at its face value. This general receivability by the government and the bank led to the reception of the notes even by state banks in small towns and villages remote from a branch. Indeed these institutions considered such notes equal to specie, and even superior for the purpose of remittance.[1] Under these circumstances there could be no depreciation of the notes. Whether the bank issued them in New Orleans, Cincinnati, or Philadelphia was a matter of perfect indifference to the community.

Unfortunately the business conditions existing in the United States were such that this excellent condition of the currency could not continue. The exchanges were always against the West, and almost always against the South in favor of the East. This being so, the notes issued by the branches in the South

[1] GOUGE, *Paper Money and Banking in the United States*, vol. ii. p. 206.

and West would inevitably be used to make remittances to the East. Impelled by the unfortunate results of this condition of affairs, the management decided in August 1818 that the universal receivability of the notes should cease. According to the charter provision, notes not paid on government account were redeemable only where issued. The bank now resolved that this should be the regulation henceforth, and immediate orders were given to that effect.[1] The result was the impairment of the perfect convertibility which had existed hitherto. There were now eighteen distinct currencies of the Bank of the United States, and to a considerable extent the country lost one of the principal benefits sought in the establishment of the bank. The new regulation bore very grievously upon individuals, as one finds on reading Niles' comments upon his difficulties with the notes of distant branches practically irredeemable at Baltimore.[2]

The want of complete convertibility in the bank's issues manifested itself in depreciation of the notes. This began with the order concluding their universal receivability, namely, in August 1818, and lasted until the bank went out of existence. The depreciation was not always the same. In 1819, for instance, the bank restored the quality of universal redeemability in respect to its five-dollar notes.[3] This, of course, affected the rate of depreciation materially. Later, the plan of receiving all notes at par in the city of Philadelphia was adopted. This again favorably affected the credit of the issues.

Immediately after the order to cease receiving the notes of each branch indiscriminately at every branch, the notes were quoted at a discount. Exact figures are available only in the case of Philadelphia. On September 7, 1818, all branch notes were at a discount of 1 per cent. in that city,[4] and they remained at this

[1] 3 *State Papers on Finance*, p. 325. The offices were not to pay, or receive in payment of debt, or on deposit, any notes but their own.

[2] 15 *Niles' Register*, p. 61, September 19, 1818; 17, *ibid.*, p. 5, September 4, 1819.

[3] Order of October 16, 1819; 17 *Niles' Register*, p. 115. 4 *State Papers on Finance*, p. 908.

[4] *Senate Document No. 457*, p. 11, XXV Congress, second session. See Appendix, Table V.

rate of depreciation until March 1, 1819, when they were quoted at ¾ per cent. discount.[1] Leggett declares that on the 12th of April of this year the notes were at 10 per cent. discount.[2] If this was so, it was a result of the panic, which was then at its height. The figures available for Philadelphia show no variation from the rate of ¾ per cent. in March. In July the quotation was even more favorable, being ½ per cent.[3] At this figure they remained for the next four years. On March 3, 1823, the depreciation at Philadelphia was ⅓ per cent.[4] and on the 2d of June in that year it was ¼ per cent.[5] At this rate it remained until July 1824, when all depreciation on small notes ceased so far as Philadelphia was concerned, and the depreciation on large notes expired with the year. This result must have been due to the policy now adopted of receiving all notes at par in Philadelphia.[6] The depreciation did not cease at any other place.

The figures given for depreciation during this period are for the branch bank notes generally. The issues of some offices were at an even greater discount. This is true in regard to the notes issued at Boston, Middletown, and Portsmouth. In September 1820 these were at 4 per cent. discount in Philadelphia; and at 2 per cent. discount all through 1821 and until June 1822.[7] On the 4th of that month they were equal in value to other branch notes. Why the paper of these branches should have suffered greater depreciation than that of the others it is not possible to say.

So much for Philadelphia. The recovery of the complete credit of branch notes after six years of depreciation was confined to that city. It was merely local. In the other towns and cities where the bank had branches the notes were still

[1] *Senate Document No. 457*, p. 12, XXV Congress, second session.

[2] LEGGETT, *Writings*, vol. i. p. 24, from the *Evening Post*, March 1834.

[3] *Senate Document, No. 457*, p. 13, XXV Congress, second session.

[4] *Ibid.*, p. 26. [5] *Ibid.*, p. 27.

[6] "Now adopted." We learn from other sources that this policy was adopted, but the time is nowhere specified. It is only fair to argue that it must have been at this period, since it is only here that depreciation ceases.

[7] *Senate Document No. 457*, pp. 17–25, XXV Congress, second session.

worth less than their face value. This was asserted by the enemies of the bank, and admitted by its friends. McDuffie, who defended the bank vigorously in his report of 1830, asserted that the notes of the branches were paid "everywhere indiscriminately," though he admits almost in the next breath that there were exceptions to the rule, and in his report says that the bank receives them "frequently at par, and always at a discount" which was not in excess of ½ per cent.[1]

President Biddle's testimony is to the same effect. He declared that all notes of five dollars were received indiscriminately at all the branches of the bank; notes of a larger denomination were not necessarily received, but usually were. All notes offered on account of government were of course received. The particular branch issuing the notes paid them on demand, and so did the parent office at Philadelphia. It was impossible, however, for any "human institution to pay all its engagements at any one time in twenty-five distant places."[2]

Taney in 1833, while waging war against the Bank of the United States, procured evidence in regard to the partial irredeemability and depreciation of the notes. In answer to certain queries put by him, the following facts were established: At Baltimore, from 1820 to 1833, the branch had not received the paper of other branches from state banks, and the notes had consequently always been at a discount.[3] This ceased with October 1833, when the bank adopted the policy of receiving all its notes at par from state banks along the Atlantic coast. The state of affairs in New York was the same. The office refused branch notes from state banks and the notes were commonly depreciated ⅛ per cent. Brokers of that city declared that for fifteen years they had traded in the notes of the branches of the bank.[4] They had bought these notes from state banks at a discount of

[1] 8 *Congressional Debates*, p. 1877, and *House Reports*, No. 358, pp. 13–14, XXI Congress, first session.

[2] *Senate Document No. 79*, p. 3, XXII Congress, first session, and *Senate Document No. 98*, p. 3.

[3] *Senate Document No. 24*, p. 6, XXIII Congress, first session.

[4] That is, from 1818 to 1833.

from ⅛ to ¼ per cent., and had then sold them at a smaller discount to merchants having duty bonds to pay. The latter parted with them to the Bank of the United States at par. This was true in respect to all but five-dollar notes, which were taken at their face value. Notes of other denominations were denominated "uncurrent," because they were not so received. Notes of the Bank of the United States were taken by the state banks from individuals at par, on deposit, or in payment of debt.[1] At Mobile in Alabama the same conditions applied to the notes of the branches.[2]

Nor was this all. It is certain that some branches sometimes refused to receive the notes of other branches even at a discount, a fact which would make such paper, if far from its place of issue, virtually irredeemable. That branches sometimes refused to receive the paper of other offices is deducible from the instructions given them in this particular. Thus the cashier of the branch at Cincinnati is instructed by Cashier Jaudon, on October 3, 1832, that he is "to judge how far it may be proper to refuse the notes of any other office" than his own.[3] Similar instructions are found in letters to the cashiers of the branches at Lexington and Louisville.[4]

The conclusions which one is justified in deducing from the above facts may be summarized as follows:

There was always depreciation after 1818. This depreciation, however, varied, being greater from 1818 to 1826 than it was later. Moreover, it was a depreciation due to the fact, not that the paper was irredeemable, but that it wandered far from its place of issue and redemption.

So much as to the nature and fact of depreciation. When the amount of depreciation is considered it is found to be inconsiderable, ranging from 1 per cent. in the early years to

[1] *Senate Document No. 24*, pp. 9–12, XXIII Congress, first session.

[2] *Ibid.*, p. 4. Letter from branch of Bank of the State of Alabama, November 4, 1883.

[3] *House Reports*, No. 121, p. 147, XXII Congress, first session.

[4] *Ibid.*, p. 130, September 21, 1832; p. 142, October 3, 1832.

½ and ⅛ per cent. in the later years of the bank.[1] All notes, moreover, were redeemable at Philadelphia as well as at their place of issue; all notes of five dollars were receivable at par everywhere; frequently all notes of all denominations were received at all the offices from individuals, but not from banks; it was the notes held by state banks that were at a discount. Finally, all notes might be, and sometimes were, refused, except at the places where made payable.

Now this is not true convertibility. The currency was sound enough; it was uniform enough; but a part of it did not circulate at its face value except in the immediate neighborhood of its place of issue. However, when the facts are justly weighed, we are compelled to admit that in the later years of the bank the matter was insignificant. All five-dollar notes were at par, and these constituted one-sixth of all the currency of the bank, and were equal in value to two-thirds of the ten-dollar notes of the bank.[2] Fives and tens comprised by all odds the greater part of the bank's circulation so far as the usual transactions between individuals were concerned. Moreover, the notes in the hands of individuals usually passed at their face value. Not only so, but the state banks took them from their customers at par; so did the Bank of the United States, and the government received all of them at their face value. Consequently, in ordinary circumstances, depreciation could hardly have existed as between individuals. It might be concluded, then, that, though convertibility was not complete, though notes of over five dollars were below par when they circulated outside of the immediate vicinity of the branch which issued them, yet the currency was as convertible as possible under the system in use. This Gallatin asserted, saying that the paper of the Bank of England in like circumstances suffered an equal depreciation.[3] Yet this

[1] Except in the case of the New England offices.

[2] GALLATIN, *Considerations on the Currency and Banking System of the Unitea States*, p. 57. This was for the year 1829. There is no reason to suppose that the proportion ever decreased.

[3] GALLATIN, *ibid.*, pp. 88–90; *Writings*, vol. iii. p. 341.

conclusion is not quite borne out by the facts, for after October 1833 the bank received its paper from most of the state banks at par, and this immediately improved its character, a result which is a sufficient answer to Gallatin's argument. The currency admitted of improvement.[1]

Moreover, there is another important point to be noted in reference to the convertibility of the bank's issues. The business habits of the day were hostile to payments of specie for bank notes. The bank evaded such payments, even refusing to receive indiscriminately its branch notes in discharge of debts due itself, or on deposit. This accorded with common custom. It was very unusual for specie to be drawn from banks in exchange for their notes. Raguet complains of this fact in 1820, and declares that while it exists there is no real safeguard against an inconvertible paper currency.[2] Crawford also lays stress upon this condition of affairs.[3] That it lasted all through the bank's history is well known. Benton, in relating the circumstances of an occasion on which John Randolph demanded "money" from the Bank of the United States concludes his account of the incident with the remark that "at that time it required a bold man to intimate that United States bank notes were not money."[4] The habit of demanding specie was almost non-existent. Nor would public opinion support the individual who demanded payment of obligations in this medium. Banks refused accommodations to men of this class, and very few were bold enough or strong enough to stand out against a pressure so powerful as the combined forces of public opinion and the refusal of bank accommodations.[5] The same conditions existed between

[1] The principal objection to the bank's notes was that of their not being receivable from the state banks. The charter in 1832 has a clause compelling the bank to receive its notes from state banks in payment of debts.

[2] RAGUET, *On Banking*, p. 297, Report to Pennsylvania Senate, January 29, 1820.

[3] Crawford to Senate Committee on Finance, December 29, 1818; 3 *State Papers on Finance*, 394; and Report to House of Representatives, February 24, 1820, *ibid.*, p. 496.

[4] This was in 1826; *Thirty Years' View*, vol. i. p. 74.

[5] RAGUET, *On Banking*, p. 102.

bankers themselves. The Bank of the United States was almost invariably a creditor of the state banks for an enormous sum.

This state of affairs was worse even than the refusal to accept the notes of other offices. There was no immediate, self-acting check upon the issues of the bank — a check which is absolutely necessary where a paper currency is almost entirely used. Otherwise there is nothing to hinder inflation except the demand for specie abroad. This was the case with the currency of the United States during the entire existence of the bank. The result was that the currency was apt to be unduly expanded at one time, and when the foreign check came, unduly contracted. As deposits were little used, the whole business of the country commonly suffered severely at every contraction and was unhealthily stimulated at every expansion. The currency, moreover, was not composed sufficiently of specie to make it in any degree stable. Specie ranged from about one-sixth to one-eighth of the whole, most of it held by the banks as a reserve or for trading purposes.[1]

These facts help us to understand an often-quoted extract from a speech of Webster's in favor of the bank. "Our system, as a system," he declared, "dispenses too far, in my judgment, with the use of gold and silver. . . . . It is true that our circulating paper is all redeemable in gold and silver. Legally speaking, it is all convertible into specie at the will of the holder. But a mere legal convertibility is not sufficient. There must be an actual, practical, never-ceasing convertibility. This, I think, is not at present sufficiently secured."[2]

The bank's paper was, therefore, far from being convertible in the full sense of that term. The process of getting specie on demand was too difficult to be persisted in by most men, and the notes were depreciated to a slight extent because payable only where issued. The consequence was that the bank paper of the

[1] See *Triennial Report of the Bank of the United States*, 1831, 41 *Niles' Register*, p. 115. Here the committee speaks of "the great amount of precious metals" lying "accessible in the banks of the Atlantic cities."

[2] *Debates of Congress*, vol. viii. p. 958, May 25, 1832.

day was not in a perfectly good condition. It admitted of considerable improvement, and the efforts of men who wished a better currency—men of whom Benton was a type—were to a considerable extent justified by the conditions.

But it must never be forgotten that, while the paper of the Bank of the United States was not in as good a state as it might and should have been, it was still far preferable to the paper of the state banks, and that the choice at the time lay between the issues of the national or those of the state institutions. In such circumstances a sensible man could not hesitate which to choose. The state banks poured out streams of paper of a smaller denomination than \$5—even as low as \$1—paper that was redeemable only at the place of issue, and which had hardly any currency elsewhere; paper which was frequently not redeemable even where issued; paper of all degrees of credit. On a just review of all that was done and all that had to be faced, the Bank of the United States is hardly censurable for the fact that its paper was not completely redeemable. The currency was better a thousandfold than that supplied by the state institutions before the establishment of the bank; it was much better than any other paper after that event; it was gladly taken everywhere throughout the country,[1] a fact which cannot be asserted of the issues of any other bank, no matter how good its credit. These facts must always be pleaded in justification, if it is supposed that the bank needs justifying. The currency of the Bank of the United States was sound and uniform, but it was not strictly convertible and was slightly depreciated.

That the paper of the bank possessed a high degree of elasticity was the general opinion of contemporaries. The fact itself is not difficult of proof, but the amount of elasticity is not easily determinable. In the nature of the case general considerations are almost the only ones which have value here.

The banking operations of that day made the question of elasticity one of far greater import than it is to this generation. That this was so can be pointed out in a single sentence: Today

[1] 45 *Niles' Register*, p. 364, and 46, *ibid.*, p. 188.

the important element of the circulation is the deposits; then it was the issues of the bank. This fact is the significant one in every comparison of banking operations then and now, but in no consideration is it more important than in this of the elasticity of the currency. Hence the conclusions arrived at by a study of this institution will be of value only when it is remembered that they will not apply in all their length to the monetary conditions of today.

As regards the elasticity of the paper of the Bank of the United States it must be noted that the state banks of that period also issued paper, and great quantities of it. Out of a total of sixty or seventy millions of paper the Bank of the United States supplied not over twenty millions. Thus over two-thirds of the entire paper circulation was issued by state banks of all degrees of responsibility and irresponsibility. Under these circumstances it is difficult to measure the precise value of the elasticity of the circulation of the Bank of the United States. Had that bank supplied the whole currency of the country the task would have been much simpler.

There is one fact in regard to the bank's organization which must in the nature of the case have made its issues much more elastic than those of national banks organized as ours are today, or than those of state banks. This was the organization of a great system of banks, of a mother bank and numerous branches. Only so can a bank currency be completely elastic, for it is only so that the currency needed can be immediately supplied where it is wanted. Moreover, it is apparent that a great bank with a large capital under its control can meet local demands much more easily and safely than a small bank. Particularly would such a bank meet the demands of small towns and villages for a currency, a demand which in many instances cannot now be met.

On the other hand, a general fact in relation to the Bank of the United States which interfered with the perfect elasticity of its issues must be noted here. This was the fact that the bank was closely connected with the government. The connection

seriously affected the free operation of the bank's issues. Thus, whenever a portion of the national debt was discharged, the bank was called upon for large sums of specie. At such times a contraction of the issues was unavoidable. At such times, therefore, the property of elasticity was seriously impaired. On the other hand, when the government revenues yielded a surplus, the bank had on its hands an enormous amount of capital for which some use had to be found. Acting under the stimulus of the necessity, an expansion in the business of the bank took place, and there were over-issues of the bank's paper. These disturbing elements will be found constantly interfering with the free operation of the bank's issues.

It may be argued that the interference charged to over-issues could not occur so long as the currency was redeemable on demand in specie, or, if it could occur, only a temporary and immediately corrected expansion would ensue. The subject was hotly discussed during the existence of the bank. The opinion expressed by its president was that a paper currency, redeemable in specie on demand, can never be redundant, because an approach to redundancy will lead at once to a foreign demand for the precious metals; to an exportation of specie; to a rise in its price; to an immediate redemption of notes in order to obtain silver and gold, and hence to an effective check upon over-issues. The opponents of the bank answered this argument by pointing to what they asserted was a fact, namely, that the issues were at times redundant. This was true, and therefore complete elasticity did not exist. There were two reasons why it did not, viz.: The public opinion of the country was against the practice of drawing specie from the bank; the provision by which specie could be demanded only at the issuing offices interfered with the easy presentation of the notes.[1] In these circumstances, unhealthy expansions in the currency were not only probable, but inevitable.

Such a condition of affairs necessarily impaired the elasticity of the issues. Indeed, if the mass of it was to be elastic to any

[1] See the discussion on convertibility above.

degree, some other effective means must be found for returning the note circulation upon the bank when the transactions upon which it was issued had ceased. One means was provided in the payments made to the government. Tariff dues were collected at all the seaports; enormous sums came in through the land offices and also through the post offices.[1] All this money was paid into the Bank of the United States, and most of it consisted of notes issued by that bank. Here was an ever-efficient means of retiring the bank's issues. Another resulted from the course of trade in the United States. There was always a flow of the bank's circulation from the West and South to the Atlantic cities of the North and East, a consequence of the financial relations of these sections to one another, which made the West and South debtors to the East and North. The amount of notes received in a single year at the Atlantic offices, largely as a result of the course of the exchanges, was very large.[2] In addition a great deal of paper was received by the inland offices. In these ways millions of dollars in the notes of the bank were retired every month. The paper taken up in 1832 by offices which had not issued it amounted to about 40 million dollars.[3] What

[1] "The government receives its revenues from 343 customs houses; 42 land offices; 8,004 post offices; 134 receivers of internal revenue; 37 marshals; 33 clerks of courts."—*Report of the Finance Committee of the Senate*, March 29, 1830. *Senate Document No. 50*, p. 21, XXII Congress, first session. According to this report the government received from these sources in the ten years preceding the first of January, 1830, $230,068,000.

[2] Amounts of branch notes received at the offices at Boston, New York, Philadelphia and Baltimore:

	1828	1829	1830	1831	1832
Boston	$1,010,000	$1,844,000	$1,794,000	$1,816,000	$2,249,000
New York	11,938,000	11,294,000	9,168,000	12,284,000	13,542,000
Philadelphia	4,453,000	4,106,000	4,579,000	5,398,000	6,789,000
Baltimore	1,497,000	1,420,000	1,376,000	1,588,000	1,601,000
Totals	$18,898,000	$18,664,000	$16,917,000	$19,086,000	$24,181,000

For 1828 to 1831, see *House Reports*, No. 460, p. 534, XXII Congress, first session. For 1832, *Senate Document No. 82*, p. 3, XXII Congress, second session.

[3] *Senate Document No. 82*, p. 3, XXII Congress, second session.

amount of their own individual issues the offices redeemed is not stated. It must, however, have been considerable. As the note circulation in 1832 averaged about 20 million dollars, it is evident that at the least twice its volume was redeemed in that year. It is probable that this rule would hold good for most years. Thus there was a constant redemption and a constant renewal of the issues, which insured a very considerable degree of elasticity.

Speaking generally, then, it can be said that the issues were elastic to an unusual extent. A consideration of what is revealed by the chart of the issues and deposits will add something specific to these general conclusions. The first evidence, conclusive in itself as to the elasticity of the note circulation, is the close correspondence between the loans of the bank and its issues. The chart shows that as the loans increased the issues increased, as the loans diminished the issues diminished. The amount of the loans, however, was determined by the business demands of the country, and so the issues must have been determined by the business demands of the country. This is elasticity.

Carrying the analysis a little farther it will be evident that the loans and issues fluctuate generally in a systematic and not in an irregular manner. The demand for banking credits was greater at certain periods of the year than it was at others. In the summer the demand was usually less than during the rest of the year. This was due to the fact that between two crops the demand for banking accommodations diminished. As a general rule, a rule determined by the need of credit to grow and to move the crop, the circulation increases from October to April, then either remains at the level attained or rises slightly until July; from July to October it diminishes to a considerable degree. These variations amount to several millions in a few months. This is the general rule. That there are exceptions goes without saying. Where there are exceptions, however, they can be explained either on the ground of something unusual in the transactions of the bank, or something unusual in the com-

mercial condition of the country. Thus the rule for fluctuation will not apply at all during the entire period in which Cheves administered the affairs of the bank. The explanation is not far to seek. Cheves almost put an end to that part of the bank's business which was based upon the southern and western trade, in other words upon the crop. Necessarily, the fluctuations in the currency could not be determined by demands having reference to the crop. That the periods of fluctuation are changed is only additional evidence of the elasticity of the issues. Again, in 1831, the issues do not decrease through the summer months. The reason was that in this year there was a general expansion of such potency that the issues could not be diminished.[1] Again, in 1832–3, there is a contraction where regularly there should be an expansion. This is explained by the fact that the bank had to secure a stock of specie in order to redeem a portion of the public debt. To get this specie, the western offices were called upon, being forbidden to increase their loans or their issues. So in 1833–4 we have a similar contraction, and once again because the bank is operating a contraction to which commercial interests were completely opposed.

In the nature of the case deposits are elastic. The line in the chart resulting from aggregating deposits and issues shows a wonderful correspondence with the line for "total accommodations."[2] The circulation of the bank, using the word to include the deposits, was certainly elastic in a high degree.

The question of elasticity possesses importance today largely because the very inelastic currency of the United States has been productive of considerable injury to the business interests of the country. It is admitted by most that the evils incident to a currency largely composed of a fixed amount of greenbacks and the inelastic issues of the national banks should be removed. The principal question, however, is as to the remedy to be used. There is certainly ground for thinking that a system of great banks with numerous branches would be by all odds the most

[1] *Senate Document No. 17*, p. 97, XXIII Congress, second session.

[2] See chart, p. 424.

successful measure. Mr. Eckels, in his last report as comptroller of the currency, advocates branches.[1] Though he does not specifically point out that the elasticity of our currency would be increased by this system, his whole argument supports the conclusion that this would be the case. Undoubtedly the plan is the correct one. It is very effective at this day in Canada, to go no further from home.

In criticising the bank of the United States for attempting to meet a demand for credit through its issues, it was not assumed that no real demand for a currency existed. The criticism was aimed at the abuse of a perfectly legitimate system. So today there does in all probability exist a demand for a note circulation which cannot be met by our present system of banks. In comparison with the demand for capital, this demand is certainly not large. But whether large or small, it could be met equally well by establishing a system of banks with branches. In case this was done, the errors committed by the Bank of the United States might be avoided by putting the branches under the control of officers from the city where the central bank was established. The board of directors could then be composed largely of residents of the place where the branch was located. In the hands of a management thus constituted the temptation to make bad loans and excessive issues would be removed, or at least materially lessened. This temptation, it hardly needs to be said, is almost irresistible to a local directory at the head of a branch situated in a new and undeveloped country. The inducements to meet the great demands for capital from friends and neighbors are generally much stronger than the interests which such a directory has in the conservative management of a bank in which they are merely paid employees, and which in its greater interests is foreign to them and their surroundings. It was just this state of affairs combined with the fact that knowledge of banking was very rudimentary in the West, which brought the Bank of the United States into embarrassment.

In conclusion it will not be amiss to point out the one great

[1] *Report for 1896*, vol. i. p. 103.

defect in the paper currency of the second Bank of the United States, and to suggest remedies, remedies which now seem almost self-evident, and which then were apparent to those skilled in finance. The great defect in the currency was its want of strict convertibility. This led to depreciation and to redundant issues, and interfered with the elasticity of the issues. The remedy for this state of affairs was certainly not to destroy the bank. In the financial circumstances of the day that was an excess of folly. A re-charter should have been granted. The bank should have been compelled to receive all its notes at all its offices. In this respect the bill to re-charter insured great improvement.[1] It compelled the bank to take all its notes in payment of debts due from state banks. This partially met the difficulty as is proved by the result of the bank's adoption of this plan in New York and Baltimore in 1833. Depreciation in those cities ceased to exist for the first time in fifteen years.[2] In the next place, the state banks as well as the national bank should have been prohibited from issuing notes of a smaller denomination than $5. This would certainly have brought into the circulation a larger amount of specie, which would have helped to check the tendency to undue fluctuations so common in the currency of that time. These measures would undoubtedly have given the country an excellent currency, one completely convertible and sufficiently elastic for all purposes. Had these things been done the nation would in all probability have escaped the worst disasters of wild-cat banking, the mistake of the greenback issues, and perhaps the free-silver agitation.

RALPH C. H. CATTERALL.

THE UNIVERSITY OF CHICAGO.

[1] *Senate Journal*, p. 452, XXII Congress, first session, sec. 4 of the bill.

[2] See p. 445.